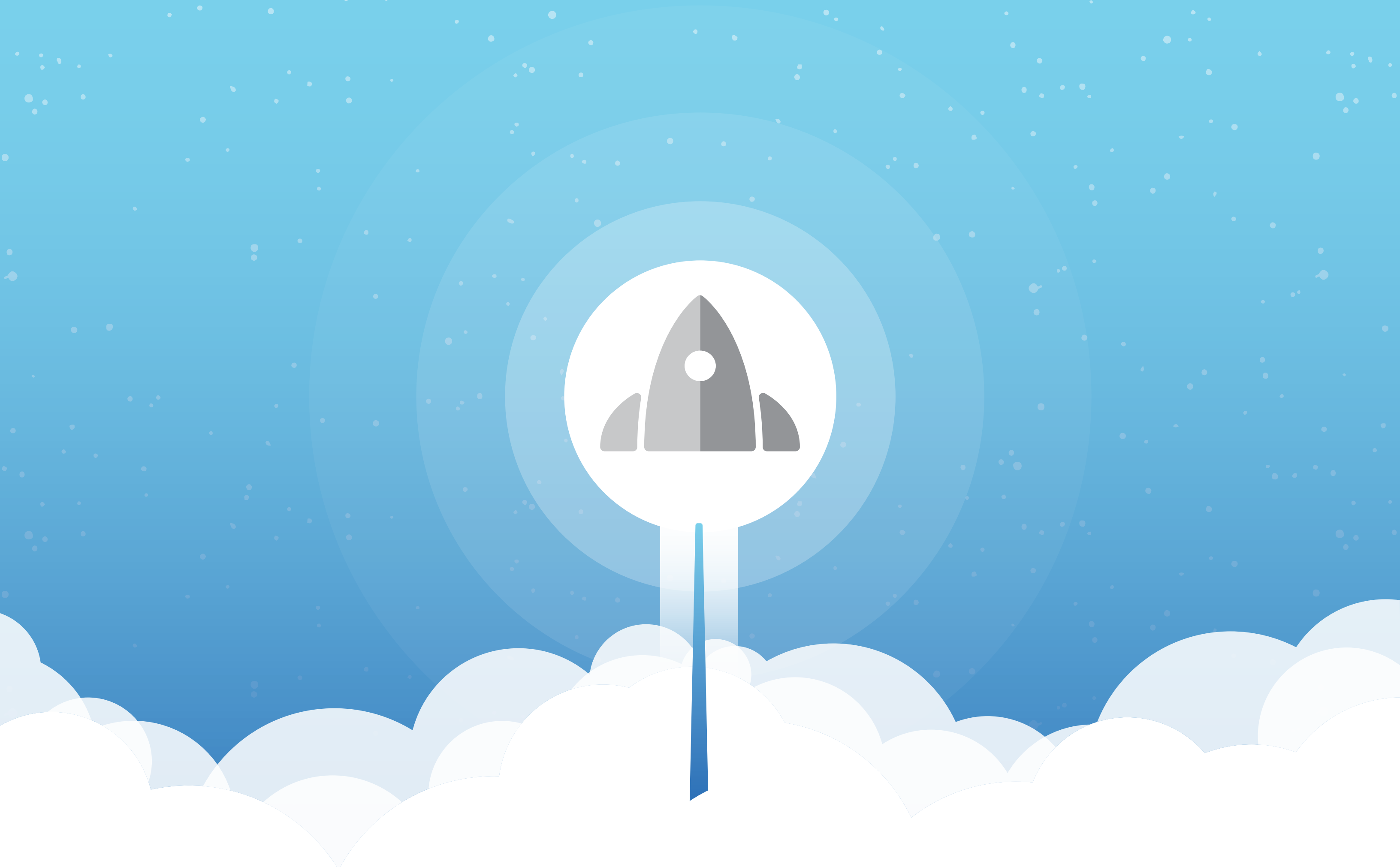
# THE ULTIMATE GUIDE

## FOR GETTING TO INITIAL TRACTION



**FROM FIRST IDEA TO FIRST $1M+ IN ARR**

BY JASON LEMKIN

Including case studies from the founders of Box, Slack, Trello, New Relic, Hubspot and more!

# THE ULTIMATE GUIDE FOR GETTING TO INITIAL TRACTION

**FROM FIRST IDEA TO FIRST $1M+ IN ARR**

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It is pretty easy to see why something won't work.

It is quite easy to see why something with a few customers won't scale.

It is downright easy-peasy to see why something with only a little traction will never be huge.

**What is much harder is seeing why it will be great.**

“

Your job is to make your customers be heroes and make them feel like they’re transforming their business in the role that they have. Later you sell them a product, but you have to make sure that everybody sees and that they are able to really internalize that, “There is a company out there that cares about me, that cares about my role.”

”

**AARON LEVIE**

CEO OF BOX

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# WANT TO UNDERSTAND SAAS?
## IF NOTHING ELSE – UNDERSTAND THAT IT COMPOUNDS.

There are many reasons why creating a SaaS is different than any other start-up, but they can all be summed up in one key factor: SaaS compounds. At least, if you have truly happy customers.

What does this mean?

- **It means it's really, really hard to get revenues going.** Think about it this way -- if you close a customer for $120 in annualized revenue, you're only making $10 a month! That's a lot of work for ten bucks. Imagine trying to get a train out of a station with a very small engine. Tons of work, with tiny revenues to start.

- **It means you'll really have to struggle to get to positive cash flow.**
  Unless you accumulate a lot of annual prepayments, cash will lag, which can be painful.

- **It means once you get to about $2m in ARR, your business is real and solid.** Revenue isn't going to evaporate, unless the churn rate is massive, which is unlikely once you get to this inflection point. This is the time to invest in your team and your product.

- **It means once you get to about $10m in ARR, real success is almost inevitable.** Next year, you will have a $14m, or an $18m, or maybe even a $20m+ business. If you are at $10m ARR now, it's hard to predict which businesses will be around next year, but at least one of them will still be kicking, so long as your customers are happy.

- **It means once you get to about $25-$30m in ARR, you are unstoppable.** The flip side of the struggle to get any revenues going. That train ain't gonna be stopped by anyone, at least until there's no longer a need for trains.

So, if you really think you have a good idea; if you are 100% convinced of its viability (OK, at least 97% convinced of it) — always push through to the next phase. Get the revenues going, even if they are small. Find a way to get to $1m — and then $2m, even if you know that's not enough.  Once you get there, find a way to get just one more level further.  Because it compounds.  Success builds on success.  It's more than just recurring revenues; it's what recurring revenues + low churn beget.  That's not to say that once you've finally achieved initial traction in SaaS that it's impossible to fail,but worst case scenario you'll fail slowly, and you'll have a chance to avoid if you stay paranoid, agile and committed.

Keep your customers happy in SaaS, and they'll buy more and spread the word. It all just builds on itself.  It just takes a while.

“

The essence of building a great company is finding amazing people to help you with the journey.

”

**LEW CIRNE**

FOUNDER & CEO OF NEW RELIC

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# YOU DON'T HAVE A GREAT FOUNDING TEAM

## TAKE A PAUSE. DON'T LAUNCH YOUR START-UP YET.

Over the past 10+ years, I've met with some of my best friends/colleagues/ partners/ ex-customers — truly amazing individuals who are working on starting a company. Some of the best of the best. But they shouldn't start their business -- yet.

Why not? They are great individuals, but they lack a good enough founding team:

- Sometimes, if the prospective founder isn't super knowledgeable about the technical aspects of the product, the CTO/VPE should be a full-time position. To often, start-ups hire rent-a-CTOs. This is too common with non-technical would-be founders.
- Or, if the CEO does have a technical background, sometimes she or he doesn't have enough business expertise to figure out the customer side. Start-ups need business pros to do interviews, to go get on a plane and meet prospects. To close the first sales, to do real market sizing and segmentation, etc. The technical CEO has a vision, but not the business knowledge. Or, there is a great founding team --but the founders don't have the expertise to be employees #1 and #2. They lack the skills to earn their first 10 customers, and to hit their first $1m in ARR.

Yes, I know statistically, the odds are horribly against you when you do a start-up. By raw numbers, the odds are something like 2000 to 1.

But you can bend those odds in your favor.

Every truly great founding team I've met over the years in SaaS somehow, someway, scraped out at least an acqui-hire, a soft landing, or a pay-everyone-back acquisition. I know there are plenty of counter-examples out there, but in my network, all of the companies with great teams have found a way to make something of their start-ups. Sometimes it took way too long, and was far too complicated but they almost all found a way.

Almost no one that has earned greatness has done it on their own. The ones that start without a great team, and have great initial outcome, almost always fail. A few make it because the CEO truly can do it all, a LeBron James of SaaS -- but even there, they almost collapse from exhaustion along the way. It is just too hard to do it all yourself.

Here's my point: if you are anxious to do a start-up, I hear you. Yes, you've probably got it in you but consider waiting. Wait until you have a truly great team. Even if this particular idea passes you by and you have to find another one. Even if it takes 18 months. Even if your team is almost great — but not quite great enough — take a pause. Find someone to join the team that can transform it from being almost great to actually great.

I'm not saying your team has to be 100% complete before you write a line of code. Of course, that's impossible. But having a great core team on Day 1 is the key to earning your first 10 customers. There are just too many great products in the market today otherwise. Too much competition for every dollar, and every second of buyer attention.

You don't need 100 engineers to build the product. You need five engineers who work really well together and who know the problem domain, know the customer, can prioritize well and can ship and operate code. That's the unit of progress in any company, that small team.

**JEFF LAWSON**

CO-FOUNDER & CEO OF TWILIO

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Myth number 1, there's a playbook. I've heard that word a few times around here already. There's an old adage out there. If it was easy, everybody would do it. This applies here. If there was a playbook that worked for everybody, then everybody would go out and make a gazillion dollars and we'd all be happy.

**THERESE TUCKER**

FOUNDER & CEO OF BLACKLINE

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# A SIMPLE COMMITMENT TEST
## FOR YOU AND YOUR CO-FOUNDERS

The greatest thing about SaaS is that it compounds. Once you have even just 100 customers, it all starts to build on its own. A virtuous cycle of world-of-mouth, renewals, and organic account growth begins to blossom (as long as the customers are happy). But boy, it takes some serious time to get those first 100 paying customers. You can conservatively estimate that it will take 7-10 years to build something big in SaaS.

If you are reading this, you are probably up for that 7+ year commitment, assuming you're fortunate enough to get there.

**But what about your co-founders? Are they committed enough?**

Is your team all-in for the extended period of time it takes to make it in SaaS? You can say all the right things, but do you really know for sure? Mark Suster wrote that the #1 thing founders privately tell him is they got this part wrong -- the commitment.

So, I've got a simple test for you and your co-founders in SaaS at least, do this with your stock:

- A 5, or better yet, 6 year vesting schedule (not the traditional 4)
- A 1 year cliff starting 12 months after you close seed funding, or launch of first sellable product — whichever comes later (i.e., if you leave before those 12 months, you leave with zero shares. Zero).
- No vesting at all for all the hard work you've already done prior to that cliff. None.
- With full acceleration / 100% vesting if terminated after an acquisition (so-called "double trigger"). But no acceleration otherwise.

This may sound a bit extreme at first, but bear with me.

This checklist will force you and your co-founders to have an honest conversation. This longer-term commitment is perfectly aligned with the 7-10 year journey in SaaS. Considering that there's no instant customer tornado, no overnight viral explosion in

SaaS, there's not going to be any Instagram or Whatsapp insta-hit. There's zero value in SaaS until you've at least built a real business, with real customers.

If you go down this checklist, and you and your co-founders all agree, intuitively and quickly — no exceptions — I'd suggest you're on the right path, as a team.

If for some reason someone doesn't work out later, and decides to step off — all or most of their equity will come back in the right ratio relative to the journey.

But …

If you can't all agree to this, if this checklist leads to push-back -- which it may very well, if any of the founders aren't willing to take the modest risks inherent in this vesting schedule, knowingly signing up for the compounding qualities of a SaaS start-up, then it just isn't going to work out.

If this is the case, fix it now. This simple test will likely ferret out whether your founding group -- no matter how talented -- is committed enough for SaaS. This doesn't mean you should fire anyone that isn't willing to sign up for this schedule, but I'd strongly suggest that anyone that fails this "test" should be moved from founder status to early employee, with commensurate economics. Fewer shares, fewer votes -- in exchange for a shorter-term commitment.

“

Only really tangentially important things are going to be accomplished by a single person. Everything significant is going to be accomplished by a team.

”

**STEWART BUTTERFIELD**

CO-FOUNDER & CEO OF SLACK

Re-Imagining the Workplace of the Future - SaaStr Annual 2018

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“

I think at the end of the day, you do have to define and rigorously track metrics, key metrics. You’re going to look at net retention and churn and expansion. And that’s going to tell you what the levers are of whether you’re being successful or not and if your investment strategy is working.

”

**ASHLEY FRYAR**

VP OF CUSTOMER SUCCESS AT NAVEX

How to Take Customer Success from Idea to Action - SaaStr Annual 2019

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# IF YOU'RE GOING TO LAUNCH
## YOU HAVE TO GIVE IT 24 MONTHS

If you've passed the founder commitment test above, if you and you co-founders have the right mix of skills, and you have the right initial team … there's just one more test you should take before you start-up your SaaS company.

The final test is a three question discussion to have with your co-founders:

1. **Are you all prepared to give it a full 24 month commitment to hit initial traction, to get to that first $500k-$1m in revenue? Not 12. Not 18. But – 24?** Six months isn't enough in SaaS. Even 12 isn't sufficient. It's going to take you 9-12 months just to get the product right. And another 6-12 months to get any material revenues. That's 18 months just to get a group of happy, paying customers,and that's without a buffer. With a buffer, you need 24 months to prove it out in SaaS.

   Yes, Slack went from $0 to $12m ARR in 2014. Woah. But the company wasn't founded on 1/1/14. It took them a year to get to a minimum sellable product. The company itself was really founded as a company years earlier. And even so, Slack is a true outlier.

   The tough reality is most folks understandably can't really commit for 24 months. For financial, or personal, or whatever reasons. That makes sense. But you'll probably fail in SaaS if you don't commit to 24 months to initial traction. If you can't make this commitment, don't start. Not yet at least. Yes, it's going to be hard. It is "supposed" to be.

2. **Are you able to commit to 8,760 hours a year? That's 24x365.** I don't mean committing to 14-hour days in the office. That's not really necessary. But can you really, honestly, commit to obsessively thinking, worrying, futzing, stressing about how to do the impossible almost every single moment of the day.

   Are you OK living and breathing your start-up almost every moment of the day. Even when you are playing with the kids? Even when you are having dinner with your husband?

Because that's what it's going to take. If you don't have the mental bandwidth — and it's a pretty crazy commitment -- you should pass on being a Day 0 co-founder, at the very least. Everything in SaaS is just insanely competitive and multi-faceted. You're going to have to be the VP of Sales, Customer Success, Marketing, and probably Product in the early days, all at once.

There's endless drama with paying customers. You'll almost lose your Best Logo Accounts. Your site will go down. The world will almost end, multiple times. You have to be intensely, painfully committed to do handle all of the obstacles associated with running a start-up. Later on, there will be extra resources, once you get to \$4m-\$5m ARR or so. The cavalry will come. But in SaaS, it takes a long time to get there.

3. **You probably have to have Zero Optionality.** This is perhaps most important. Maintaining optionality almost never works. "I'll try for a while and go back to Salesforce if it doesn't work," or, "I'll do a lot of consulting while I see if it works," or, "I'll raise \$500k and see how it goes."

   Great founders maintain Zero Optionality, and not because they are crazy risk-takers. They are often risk averse, in fact. But because they just don't see the huge risk, they have no backup plans. They see the wide-open future, and how to realize it. If you need to maintain optionality — then generally, you aren't ready to do your own SaaS startup. You'll quit or pack it up somewhere in that first, tough, 24 months stretch with little or even no pay and revenues. Because that's the logical thing to do at that phase.

Now, what if you aren't quite there? You can't pass the 24-month tests above, but you are close. Then take a pause. But don't say no yet. Instead, go do some more homework. Do 20 real customer interviews. Find a great co-founder that also can commit for 7-10 years overall, 24+ months to get to Initial Traction, and also pass tests 1, 2, and 3 above. And then see how it feels after that.

Great founders can see the future, but oftentimes they need a little help to get there. I did, in both my start-ups. 20 interviews and an amazing co-founder can be the missing pieces to show you how to really do your own SaaS start-up.

“

If you can’t write down, “This is what I’m making. This is who I’m going to sell it to. This is roughly how many people I can sell it to and this is roughly the price I want to get.” Then you don’t have a clear market. It’s possible to know if you have a clear market but I don’t worry about if it’s a correct market because it’s impossible to know until later.

”

## PETER GASSNER

FOUNDER & CEO OF VEEVA

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# 5 WAYS TO ENTER A CROWDED MARKET

## AND 3+ WAYS NOT TO

One thing many SaaS founders get wrong is finding the right entry point into a crowded market. Today, there are 5000+ marketing automation apps. 500+ CRMs. Sure, you could make a prettier app or an app you think is better in some specific way -- but why would anyone buy your product in such a crowded market?

Most founders don't really think this through. They assume making their app a little cheaper, or a little slicker, will encourage customers to leave a trusted brand for a new vendor. They won't.

There are a few proven strategies for penetrating crowded markets:

- **Be 10x Better at One Important Feature That Customers Will Pay For.**
  In the early days of your start-up, your app will likely be buggy and feature-poor. This might even be the case in the not-so-early days. But if you are 10x better at (x) one important feature that (y) customers value and will pay for, then that's enough. Many founders get this wrong. They'll build a feature that is indeed 10x better — but they'll choose a feature that's not important enough for customers to spend the time and effort needed to transition to a new raw vendor. Make sure that the feature you build upon is really close to the money your customers make, manage, process, or collect. Ensure that your product solves a mission critical challenge in a profound way. Go ask. Investigate. Demo your product. Repeat, repeat, repeat. Your minimum sellable product has to be 10x better at something that customers are willing to pay for. But there is white space in almost every segment.

- **Be Dramatically Cheaper.**
  This one's tough to play, but it can work. Cost rarely is enough to switch -- businesses trust and value brands they can rely on, regardless of cost. Dropbox is much more expensive than Google Drive, but they still rocketed to $1 billion in ARR faster than any other SaaS app. Still, one way to become a clear #3 in a specific space is to be the cheapest. #1 is often the strongest brand, #2

is usually the most innovative, and #3 is the 'Still Pretty Good but the Cheapest' option of the Top 3. It's not the most exciting strategy, but being the "best cheapest app" in a specific niche can work, at least to get you to a few million in ARR. From there, you can go more upmarket, or evolve in new ways.

- **Uniquely/Best Integrated with a Key Partner.**
  This is a variant of the 10x point. If you integrate better, or in a more unique way with a key platform than other vendors, you can really get off the ground. Many new vendors are exploding as a Shopify Platform, for example. Some vendors are doing the same on Slack, even emerging leaders like Intercom and Talkdesk. Today there are dozens of unicorn vendors that help accelerate the few startups that leverage them with very high attach rates and joint value propositions. But it's important to note that there are fewer winners than it might seem from the outside. Usually, there are only a few startups that make millions from any given SaaS partner and integration platform. Only a handful will have a high-enough attach rate to generate material revenues from a third party platform. But a handful will. It could be you.

- **Top Enterprise, Best Solution Provider.**
  While harder to do in practice than in concept, being the top enterprise vendor almost always works when done right. Global 2000 and larger SME customers pick the vendor that solves their problems, not just a slick tool that has unique functionality. Companies will pay anywhere from $25,000 or $250,000 to solve their biggest problems (including services, implementation, customer success),even where they won't pay $2,500 for a seemingly similar, slicker widget that has similar features, but doesn't solve their business workflow and process problems. Delivering true enterprise solutions is a big commitment. You'll need a bigger team, and the ability to survive much longer sales cycles and initial customer deployments. Does this sound like something you could handle? If it is, consider going all-in on being the top enterprise vendor on Day 1.

It's not easy, but each of these 5 strategies help companies break out in a crowded space. The playbook often has to change as you pass a few million in ARR. After that, you usually need to be proficient at more than just one of these five strategies.

Here are a few things that founders think work best for breaking-out in crowded spaces - bet, tend not to work as well in reality:

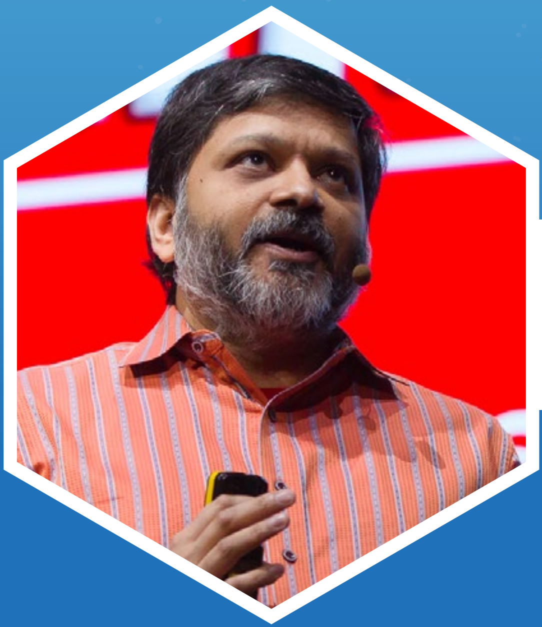
- **Positioning as "Easier to Use".**
  Even if your software is more user-friendly, it's not always enough to convince customers to make the switch. There's also the question of who the app is actually easier for Yes, Salesforce is "harder" to use than Pipedrive for an average user who is new to CRM,but the dashboards, analytics, and C-level functionality are much stronger in the former. Pipedrive is far easier to use for a small businesses or small groups, but Salesforce delivers what a CFO, CRO, CMO, and bigger-company CEO want out of a CRM.

- **Positioning as "Cheaper".**
  Being dramatically cheaper can sometimes work, but 20% cheaper? That works for commodities, but most software is fairly cheap as it is. Paying $6/month or more for a Dropbox competitor or even more so, a Box competitor where you are looking for an enterprise-grade solution, isn't worth the potential risks for the vendor, such as outages, data leaks, and so on.

- **Brand extensions.**
  Yes, it's great being strong in a certain area, but will customers want to buy another product from you in an adjacent space? Maybe. Challenge yourself to understand what you bring to the table beyond a mini-brand in your existing product line/space.

- **10x Better at an Almost Important Thing.**
  This point may sound a little redundant, but this is such a key mistake. Every big SaaS player has some things they aren't great at, and some things they're barely competent at. It's so easy to point out the less-than-perfect parts of all the top SaaS companies. Yes, you can build that weak piece of functionality better yourself, but will the market truly pay for it? There are only a small subset of features customers will truly pay for. Do thoughtful research . A better mousetrap that businesses find 'sort of' interesting, but not interesting enough to pay for is perhaps the #1 mistake founders make trying to get anSaaS company off the ground. Budgets are slightly elastic, but not unlimited. Customers tend to pay for the same categories over, and over, and over again, looking to solve for the same big problems.

I get asked all the time. “Should I create my own category?” It worked out pretty well for HubSpot but the odds of pulling it off were relatively low. Before you create your own category, ask yourself, “If we were to pick an existing category, what’s the closest one? How different are we from the things that already exist?”



**DHARMESH SHAH**

FOUNDER & CTO OF HUBSPOT

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> **If you're going after an existing market, your V1.0 has to be, at least on some dimensions, significantly superior than incumbents.**

# JYOTI BANSAL

FOUNDER OF APPDYNAMICS

From Idea to $3.7B - SaaStr Annual 2017

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“

I don’t think of developers as the market, per se. I think of developers as the strategy, or entry point, to get into the market.

”

## JEFF LAWSON

CO-FOUNDER & CEO OF TWILIO

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"Good things happen when you drift up into the enterprise but there are also downsides. One of the biggest is that it's so much more competitive. In the SMB space, there are very few people that are crazy enough to do what we did and stay there. We have relatively unfettered blue ocean access to millions of companies that we can just grow."

## DHARMESH SHAH

FOUNDER & CTO OF HUBSPOT

From Day 0 to IPO. What Went to Plan. What Most Certainly Didn't - SaaStr Annual 2016

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If you are the 17th business analytics company making business analyst heroes, it's not going to work. You have to have a message that's totally ownable. It's not a product message. It's an industry message. Get that across in every single thing that you do.

# AARON LEVIE

CEO OF BOX

Running The Box Playbook - Even Better The Second Time - SaaStr Annual 2016

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# GET FROM 1.0 LAUNCH
## TO TRACTION IN SAAS

Building great 1.0 products is a true art. Creating something wonderful from nothing (versus just building on something else) is still a relatively rare skill-set. You need tenacity, creativity, amazing developers, and a keen understanding of your market, both today and at least 24-36 months out.

In the end, if you have a team that has built great software from scratch before, shipping the 1.0 is the easy part. If you've done it before, you can do the building-from-scratch part again. So, let's assume you can get that far -- that you can put together a great team, and get a decent (even good, maybe even great) 1.0 SaaS product out the door. Then how do you get any traction? There are just so, so many B2B products these days. Here are 5 tips that work in SaaS:

- **Lavish Attention On Any Single Customer and Every Single Lead You Do Get.**
  Don't dismiss any customers in the early days, no matter how small. Each early customer represents the exact needs and wants of 10-100 more. Make even \ customer a true success. Then, given enough time, you will make another 10 and then 100 customers a success as well. No customer is unique, even if it seems like it at the time. Every early customer is a gift, because they show you the future, and they give you the playbook to close more customers just like them. You just have to listen. Even if the early customers don't add up to enough revenue to keep the lights on -- and it's never enough early on -- treat them as if they do.

- **Get Attention For Your App.**
  Do whatever you can possibly do to get attention for your new application. Go to every conference. Speak at any possible event you can, no matter how small. Win every award. Try to get every blog to write about you, no matter how small. Reach out to anyone and everyone in your space. Reach out to any potential buyers you can find. Be respectful, but totally and utterly shameless. Do whatever you can possibly think of. Nothing will really work well in the early days, but if you try everything, something will likely get you a few good prospects.

- **Get Out of the Office.**

Some customers find you on their own, but to get your customer base going, you're probably going to have to hustle. Try to connect with any possible customer you can. Jump on any lead, take any meeting you can get. And don't just do it over the phone. Your odds of closing a customer go way up if you go meet them in person. The prospects are much more likely to believe you can solve their problem, as a new vendor without a proven brand, if you speak with them face-to-face. It's OK if you are 21 and this is your first job -- still go there. Prospects always love meeting the CEO, no matter who they are or how tiny the vendor is.

- **Hire the Missing Piece.**
  You should spend 20% of your time finding, recruiting, begging the top missing pieces on your team. Not an hour here and an email there. One full day per week, or 2 hours a day. Yes, it is hard. Recruiting never gets easier, but great founders have the charisma and tenacity to find a way. Network. Use LinkedIn, AngelList, Product Hunt -- anything and everything. If you need one more team-member to make it happen -- go find your missing piece.

- **Carefully Plan Your Next Release – It May Be Your Last Best Chance.**
  This is a point lost on many founders in the early days. You don't have infinite time in the beginning. After you launch, you really need to get the next release right. No more winging it after the 1.0. You have to make sure each new feature and release truly expands upon whatever you've learned since your launch. So invest extra time to make your first users/customers successful. Listen carefully to them. Then, make 1-2 bets on where you could go based on what you learned. Maybe it's a few key integrations. Or a feature that could change the game. Whatever you do, assume your next release is your last best chance to get more customers. Make the right trade-offs so it really counts.

**Perhaps most importantly, whatever works, even a tiny bit, for customer acquisition in the early days -- triple down and do it more even if the ROI seems so small.** Don't expect any magic channels in the early days. Just try to find one than works at all, and lean in heavily there. Even if doesn't feel scalable, or big enough. Any channel or initiative that gets you even a handful of paid customers in the earliest days is a win. Do more of that, absent any better ideas.

Don't sit here and think, "Well, they're Salesforce, they've got amazing tower, they have a megaphone and a CEO, that's Marc Benioff." Our message really for you is to start early and start soon. It's easier to right a ship when you've got a couple hundred employees. To do that equal pay audit now, to think about diversity in your hiring and your recruiting practices now versus, "Oh, let me fix things when I'm 40,000 employees in."

**MOLLY FORD**

DIRECTOR, GLOBAL EQUALITY PROGRAMS AT SALESFORCE

How we did it: Gender Equality, Equal Pay, and Racial Equality - SaaStr Annual 2019

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“

You’ve got sixty , maybe 180 seconds to impress the customer. The timer starts as soon as they sign up. We focused a lot of our efforts on how we’d wow the customer during their first interaction with our software.

”

**LEW CIRNE**

FOUNDER & CEO OF NEW RELIC

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We always looked like we were everywhere, for me, the strategy was based on market penetration: “how do we accelerate growth?” and “how do we create credibility awareness with the expectation that will lead to revenue?” Sometimes, we did deals just for the credibility or just for the awareness and always we had to figure out what was going to be our path to revenue and we went after it.

**KAREN APPLETON PAGE**

EXECUTIVE AND INVESTOR

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# HAVE 10 UNAFFILIATED CUSTOMERS IN SAAS…

## THEN YOU HAVE SOMETHING

One of the toughest facts about  SaaS, a downside of the fact that it compounds, is that it often feels like you're a hamster running on a wheel. Each month, each quarter, you have to almost start over from zero and sprint to hit that next revenue goal.  That makes it really hard to see and feel your moments of success, and perhaps even more importantly, really hard to see and internalize and process pre-success. Let's highlight a few of those moments that will show you that you are on the way to initial traction.

**The first key, critical moment of pre-success, that almost no one will appreciate but you,is when you get 10 unaffiliated, paying customers.** I don't mean friends of your angel investors, old coworkers or bosses. I don't even mean folks you hustled at a conference or meeting (well done, but that's prospecting, which counts, but is something else). No, I mean 10 customers that just appeared from the ether -- a raw, unaffiliated, lead, that somehow found you on their own, on the internet, kicked the tires, and now — is actually paying you. Every month.  Someone you've never heard of and have zero connection to.

10 unaffiliated customers may not seem like much. In the early days of EchoSign, we called these folks "Beer Money" -- that's all their revenue added up to. 10 customers was only worth $200 a month.  That didn't really pay the bills for4 engineers and 3 other guys.  In fact, it barely paid for the beer itself. But …10 customers out of nowhere is actually an amazing early milestone. Yes, you may still fail,  but 10 this is your first sign of pre-success.  Earning 10 unaffiliated customers means three things:

1. **You will definitely get 20 … and almost certainly 100 paying customers … once you get 10 from the ether.** If you got 10, you will get 20 if you just keep doing whatever you are doing. And if you don't run out of time or runway, you can go it again, and then again.  By keeping the same strategy, you will get at least 100 customers. And then 200. At a minimum, you can keep doubling and doubling over discrete periods of time.  If you get 1 customer, you can always get 2 doing the same thing.

2. **It's amazing that you made it to 10 considering no one had ever heard of you.**  You don't even have a mini-brand yet. Why

would any customer trust you? It's a huge vote of confidence that shouldn't be under-appreciated. Maybe you were on TechCrunch or Mashable or Product Hunt or some blog, and that's how they found you, but they still have no reason to trust a brand-new vendor. Yet you still got these 10 unaffiliated customers. That's your first special customer moment. Take the team out to celebrate.

3. **It means you built something real; something valued, but most importantly, something you can build on.** These 10 customers will give you a road map to 1000 more customers — if you listen carefully. You don't need to take all their advice, and you don't want to get distracted from the big picture, but the feedback from these first 10 customers won't be from outliers. It will be transformative informative. Those first 10, 50 and 100 customers will be very similar to your first 1000 customers. They are your blueprint. Cherish them, and use them to your advantage.

In other words,once you have 10 unaffiliated customers, you've got the SaaS version of a Minimum Viable Product — the Minimum Sellable Product or "MSP". You probably even have the very, very beginnings of organic leadflow, or at least an idea of how to get more leads.

Your 1,000th customer will likely be just like your 10th in concept, spirit, category, and core problem solved. At EchoSign, our first unaffiliated customer was a distributed sales manager of a telesales team. The exact industry she was in was unusual (debt consolidation), but digging deeper, the actual use case was exactly the same, in spirit if not in workflow, as 80%+ of the customers that came later. The same as Facebook, as Twitter, as Google, as Verizon, as BT, as Oracle, as Yelp … as all of them. The same core "goodness" that you've built is what will attract all of them. You're obviously going to need to build a ton more features, mature your product dramatically, and so on, but the core will be the same as Customers 1-10.

10 customers may not pay the bills, but they are the tip of the iceberg. Don't listen to the doubters that tell you 10 customers is too small in absolute terms. They're right, but they won't see what you see.

This is your first pre-success in SaaS. You should be proud. Now, Next Stop: Initial Traction!

If you focus on revenue, that's actually the last thing that you should focus on. What you should focus on first is value and engagement. Really deeply understand the value that you're providing to your customers. Make sure that you are clear on what that is. Make sure it's super compelling to your customers. Measure it and get better and better at doing that.

On the engagement side, make sure that people are actively using your product. Make sure that every constituent, if you're in a marketplace, make sure you've got both sides using your product or service. Value and active engagement. I can tell you then, for Intercom, because I always think it's...the theory of these things is very different than the actual.

## KAREN PEACOCK

COO OF INTERCOM

Growing and Scaling SaaS Businesses from $1M to $500M in ARR - SaaStr Annual 2018

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Far and away the most dangerous error to make is the “CEO magic.” The CEO will win their first account and maybe the first few customers. But they’ve broken some rules to get there. Then they bring in this professional sales organization or sales leader to build the sales team but they’re not allowed to use CEO magic. It’s a real problem when they think they found product/market fit when they actually have not.

”

**DAVID BAGA**

CHIEF BUSINESS OFFICER OF LYFT

How to Scale a Sales Team From 1 to 100 Reps - SaaStr Annual 2017

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# HOW TO KNOW YOU'VE HIT INITAL TRACTION IN SAAS

## THE MOMENT WHEN YOU'VE GOT A REAL COMPANY

There's a common meme in venture capital that traction is tough to quantify, but you know it when you see it.

Well, let's take a stab at quantifying that moment when you have the first, but true, "traction" in SaaS; when the business is now repeatable, even if you haven't really built up the team you need to keep it all going yet -- a SaaS business that has enough critical mass to build upon itself, properly nurtured.

Here's our discrete definition of Initial Traction, when a SaaS business begins to self-propagate:

- **ARR (annualized revenues) of $1m or more**
- **Growing >=100% a year**
- **With >50% of new revenue acquired from zero-cost marketing,** i.e. viral, ether, word-of-mouth, whatever. Why does this matter? Because these sources of leads and customers compound.

These three criteria signify two important things:

**First, that your SaaS product's customer base (and revenue) is compounding.** Not from a large base yet, but it's started to compound, albeit at a small scale. That's where the power and leverage is in SaaS. It's important to note that growth much less than 100% at $1m in ARR generally means it's not organically compounding, at least not yet. Usually, slower growth means you don't quite have true product-market fit yet. Keep at it. Continue iterating the product and features until you hit your goal.

**Second, you've begun to build a brand.**
It's only a micro-brand at this phase, but word-of-mouth is starting within a tiny community of potential customers. This is what will enable you to scale. The brand will begin to self-reinforce itsel, so long as your customers are happy. To grow 100% or more at this phase generally means your customers are already starting to talk and refer you to their friends and contacts.

Some people don't hit this test for quite some time — especially the 3rd prong. If you're at $1.5m in ARR, yet you're still out there bringing in each customer yourself — well, you're doing great, but you haven't really hit initial traction, at least not by this definition. Some companies won't hit traction until $2m-$4m in ARR, or even later. It often takes at least 100 happy customers to build a mini-brand, so if you have a larger deal size, it may take longer.

With hindsight we can often see true initial traction as early as $1m ARR.

When you do hit initial traction — it won't feel all that different. You'll still be struggling to achieve escape velocity. After all, with $1m-$1.5m in ARR, or whatever the number is … you may only have 8-10 employees. It's hard to feel like you really have something concrete when you're still taking out the trash yourself, answering support tickets, and struggling to make payroll. It won't feel real until you're much further along -- once you're nurturing a mini-brand closer to $3m-$5m in ARR or more, or once you've got a team of 30, 40, 50 folks all pulling together. When people grab you at events and on the street and tell you how much they love your app, you'll know you've hit initial traction.

**You need to know when you hit initial traction — because that's the time to accelerate.** This is when you start to invest more, as much as you can. Add an extra sales rep, schedule the extra event or marketing campaign, hire another engineer to build that key feature. However you do it, find a way to fund acceleration.

Once you've gotten to this point, even if it doesn't feel all that different, you'll have something real — a tiny, but real, compounding SaaS company. You've established the self-sustaining base of a compounding, powerful SaaS business model. As long as it's $1m+ in ARR, growing >=100%, with significant organic customer flow … things are about to get good. Your job as CEO now transitions to being the #1 growth enabler.

“

100% of our early growth came from people recommending us, specially on Twitter & that’s been an under recognized aspect of this, because people won’t post on Facebook, because it’s not really appropriate to say, ‘Hey, we switched tools at work and I really enjoy this new software,’ but they have no compunction doing that on Twitter and they may have 400 followers or they might have 8k followers or they might have 140k followers and that really adds up.

We have a custom timeline of, at this point, probably five or six thousand tweets of people saying, ‘Just switched to Slack. Love it,’ and every one of those might only be seen by 20 people, but it might again be seen by tens of thousands.

”

**STEWART BUTTERFIELD**

CO-FOUNDER & CEO OF SLACK

Re-Imagining the Workplace of the Future - SaaStr Annual 2018

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In my early days at BlackLine, I had a very narrow life. I had my company and I had my kids. If I had friends, either those friendships withered or I hired them for almost nothing to come work for BlackLine.

It's the only way I could do it. There were times when I was so burnt out, I felt so alone and it was so difficult. You know what? I could go home at the end of the day and be mom. That was a really special balance because my kids didn't care if I was successful or not. I was just their mom. It was a beautiful thing.

**THERESE TUCKER**

FOUNDER & CEO OF BLACKLINE

Busting the Myths About Startup Success - SaaStr Annual 2018

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We mock billboards because we think. “There’s no way we’re going to get leads.” It’s not about leads. It’s about reinforcing the brand and supporting that, and then getting people to say “I’ve heard of it.” You  do it just right and it can even work at a million in revenue.

**JASON LEMKIN**

CO-FOUNDER & CEO OF SAASTR

Twilio: The Inside Story - SaaStr Annual 2017

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# A FINAL THOUGHT

## AS YOU BEGIN THE JOURNEY TO $1M AND $10M ARR AND BEYOND: YOU'LL MAKE TRULY GREAT NEW FRIENDS, AND YOU'LL LEAVE SOME BEHIND.

As you proceed on your SaaS journey, you'll find you have less in common with some of your old friends and colleagues who can't relate to the intense journey of being a start-up founder.  After 6 months or so as a CEO,you'll be forever changed.

Being a founder is just so much more intense and all-consuming than an individual contributor or even "ordinary" manager role. Your friends with great jobs as line engineers at Google or Facebook … you'll start to have less in common with them. Sometimes, you can even grow distant from your family as well, if you are not careful.

The good news is, you'll also gain great new friends along the way.  Truly great ones:

- **As you scale, you'll bond with other CEOs and founders at your level.** You'll have a lot in common with other CEOs at $1m, $10m, $50m, etc. ARR. Try to do more CEO dinners and such, even when you are tired and just want to go home. These CEO meet-ups are 100% worth it in the long run.
- **You'll build great relationships with your VPs and team members, at least some of them.** Later in life, when they are no longer your subordinates, but just ex-colleagues … you'll look back on the moments you shared together.  You'll feel as if you've been to battle together, every day, for years.  If you've given it 100%, and achieved some level of success, then you've also created lifelong bonds.
- **You'll even make some friends in odd places, such as with partners, the press, and more.** If you spend two years building a key partnership with a stakeholder, sometimes that relationship becomes more.  Sometimes, it's a friend for years to come.
- **You'll have a special language with these startup friends that you will carry with you forever.** You'll do reunions. When you get together, you'll instantly recollect that great customer wins, the terrible customer losses, that crazy retreat, that do-or-die hail mary mentality.

Running a business is a natural, organic way to make more friends and relationships later in life … at a time when it’s often naturally harder.

These “work journey” friends are one of the top benefits of building a successful start-up.

It’s the journey that matters the most. Starting your own SaaS company is a new journey that will help you form new and amazing relationships for life.

See you out there.

# HUNGRY FOR MORE?

SaaStr is the world's largest community of SaaS executives, founders, and entrepreneurs. Our goal is to help everyone get from $0 to $100m ARR with less stress and more success. We do that with a combination of industry-leading content and community connections.

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